Churchill Management Group

Monthly Market Update

May 10, 2022

TACTICAL STRATEGIES

PREMIER WEALTH TACTICAL & PREMIER WEALTH TACTICAL CORE

Markets clearly have indigestion from the Federal Reserve's ramped up plans to tighten financial conditions to combat inflation. Investors seem skeptical that the Fed can engineer a soft landing by managing to bring down inflation to an acceptable level without creating a recession.

The last six weeks appear to reflect the market's realization that the Fed means business in its inflation fight and that this process will not be easy. Seat belts have definitely been necessary for both bulls and bears, with volatility ramping up as investors go back and forth on their assessment.

In last week's meeting, in which the Fed raised rates for the second time this year, Jerome Powell invoked his inner Paul Volcker, making it clear that if inflation remains high, the Fed will continue to tighten financial conditions until achieving its goal.

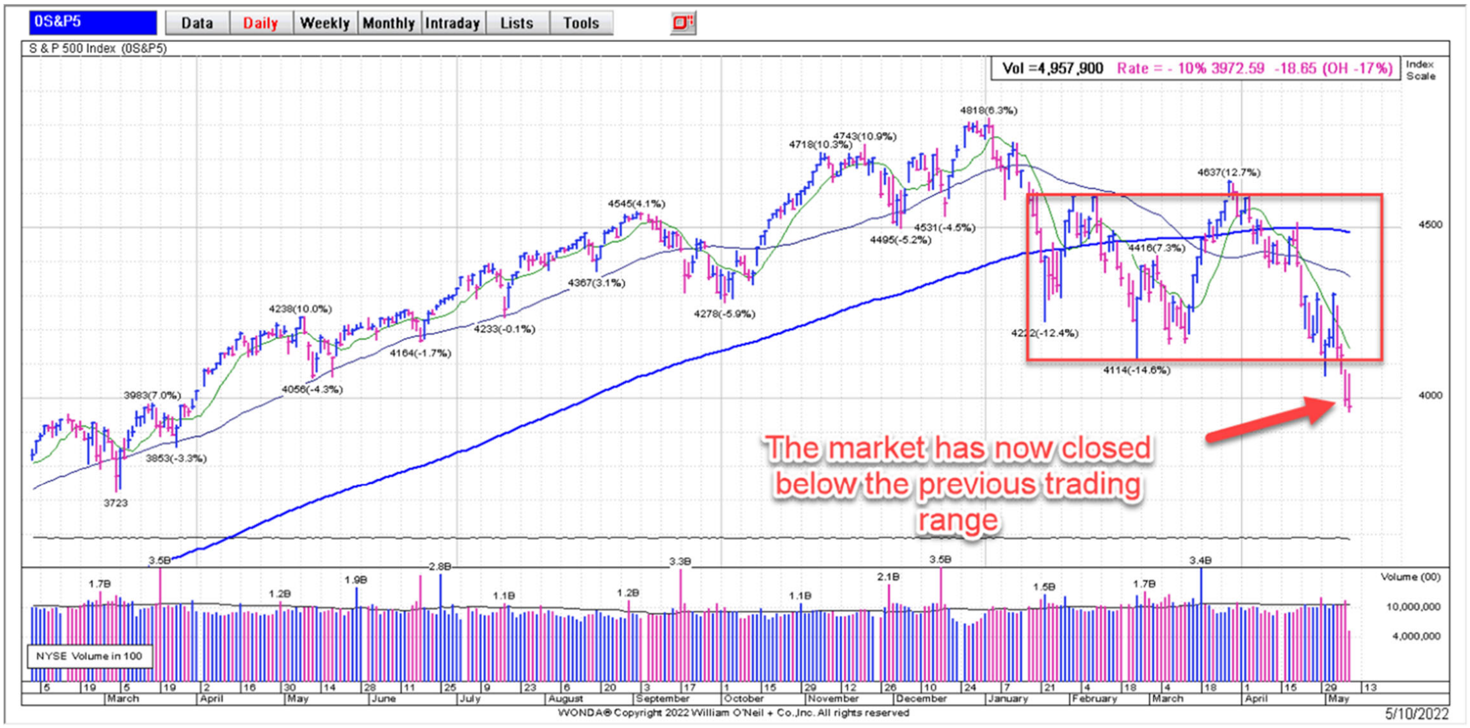
At first, markets appeared to ignore those comments. Instead, Wall Street focused on the fact that Powell said the Fed was not currently considering a 75 basis points hike. Analysts concentrated on Powell's comment that the next two hikes will be 50 bps each, after which the Fed would reassess. The market had been expecting the next three hikes to be 50 bps.

The market's focus on the positives drove the major indices sharply higher, with most indexes seeing a 3% pop. The rally was badly needed, as the market had already been very oversold and near the lower end of the trading range since the latter part of January. When reality set in the next day, the markets gave up all of those gains and then some.

The technical action for the stock market has been poor, with most of the major indices sitting right at or below the trading range. Growth has been hit the hardest and appears the most vulnerable, as evidenced by the Nasdaq, which has been hit the hardest.

It would be a potential positive if the market could find some support at the current levels, but it is struggling to do so. Presently, it is a very oversold market. On the negative side, in a span of a couple of weeks, we have seen a sharp reversal and two big pops, including the failure of a big Fed-induced rally, giving up its gains the next day. It is not a good sign seeing such positive action wasted.

At this moment, the market is at a technically vulnerable level. The negative action recently led us to take some defensive steps as we approached the lower part of the trading range. Monday's action did not help as the market closed below the previous trading range. That increases the risk of another down leg, making necessary an even more defensive position. We pared back a little more.



On the fundamental side, if it was not crystal clear before, Powell has made it clear that the inflation numbers will be key to its policy going forward. Future inflation data releases will surely be closely watched.

It was interesting that Powell acknowledged that monetary policy only works on the demand side. This point is very important because there is a lot of debate about what is causing inflation. Is it excess demand? Short supply? Both? How much of each?

The answer is that it is likely from both the supply constraints and excess demand. This means that inflation will likely remain elevated despite the Federal Reserve's efforts to reduce demand-induced inflation if the supply constraints,which the Fed has no control over, do not recede.

We are currently sitting in a defensive position and will let the market tell us what the next steps should be.

TACTICAL OPPORTUNITY

We made a slight increase in cash holdings over the past month as the holdings have fared relatively well. On the downside, the old guard has taken on some water. Take Amazon, for example. It is a stock we have owned (while trimming profits along the way) in the portfolio as a base position since 2015 but is testing our patience lately. On a positive note, Bunge, Berkeley and Chevron helped offset such weakness with positive months. We have our eyes open for both additional cash-raising sells, as well as buys, depending on what this volatile market signals.

FULLY INVESTED

ETF SECTOR ROTATION

With markets down over 10% since April 1, the Value sectors were much better than Growth. Only the Energy sector was positive, while the defensive-minded Consumer Staples were near even.

Looking at what we have done right, the strongest performance came from being overweight in Energy and underweight in Communications, which has been struggling. In terms of where we could have done better, we feel like we missed some of a good run in Utilities, although that sector makes up a small percentage of the S&P.

The broad markets clearly show a lean toward Value. Large-cap Value has been down less than half of Growth since April 1. The model is tilted toward Value only in our broad market holding. Internationals lagged across the board, and we are out of all international positions.

EQUITY GROWTH OPPORTUNITY

The continued selling of growth and specifically Technology stocks led us to lighten up exposure to Growth in the month of April. While Growth was getting hit hard, the Value and Commodity space were outperforming areas. Technology stocks like Advanced Micro Devices (AMD) and Applied Materials, Inc. (AMAT) were weak and were sold out of the portfolio while Alpha Metallurgical Resources, Inc. (AMR) and Coterra Energy Inc. (CTRA) in the coal and energy space were positive for the month. The continued back and forth action and volatility may remain. We will tinker with our allocation to try to find the right mix in this choppy and sloppy market.

EQUITY GROWTH AND VALUE

The portfolio has been moving largely in line with the market over the past few months. The model has a nice blend of some Value added over the past few months, along with some long-term holdings in Growth, which have been pulling back after a great run. Value and Energy plays, such as EOG Resources, Valero, and LyondellBasell Industries, lead on the upside. Meanwhile, Growth holdings, such as Nasdaq, Teledyne Technologies, and Chipotle Mexican Grill lagged.

EQUITY DIVIDEND INCOME

Given their Value nature, Dividend stocks held up significantly better than the general market. On the plus side were Energy holdings like Valero Energy, Marathon Petroleum, and ExxonMobil . However, the holdings felt some pain in Financials like Prudential Financial and KeyCorp, as well with broad economy holdings such as United Parcel Service. We continue to make normal rotations as needed.

RISK BLENDED STRATEGIES

Our Risk Blended Strategies are a combination of both Premier Wealth Tactical Core and ETF Sector Rotation. Please see the above commentary for more information on each strategy.

- **Churchill Moderate:** 70% Premier Wealth Tactical Core / 30% ETF Sector Rotation
- **Churchill Moderately Aggressive**: 50% Premier Wealth Tactical Core / 50% ETF Sector Rotation
- **Churchill Aggressive:** 30% Premier Wealth Tactical Core / 70% ETF Sector Rotation

For a full description of each strategy, please click here.

Best regards,

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